

**CITY OF SUTHERLAND
INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND SCHEDULE OF FINDINGS
JUNE 30, 2010**

CITY OF SUTHERLAND

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CITY OF SUTHERLAND

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
(Before January 2010)		
Carolyn Rohrbaugh	Mayor	December 31, 2010
Steve Koch	Council Member	December 31, 2010
Elizabeth Peters	Council Member	December 31, 2010
Ken Nelson	Council Member	December 31, 2012
Bruce Engelke	Council Member	December 31, 2012
Jack Wallinga	Council Member	December 31, 2012
Betty Hill	City Clerk	Indefinite
William Klinker	Attorney	Indefinite
(After January 2010)		
Alan Mills	Mayor	December 31, 2014
George Johnson	Council Member	December 31, 2014
Elizabeth Peters	Council Member	December 31, 2014
Ken Nelson	Council Member	December 31, 2012
Bruce Engelke	Council Member	December 31, 2012
Jack Wallinga	Council Member	December 31, 2012
Betty Hill	City Clerk	Indefinite
William Klinker	Attorney	Indefinite

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Sutherland
Sutherland, IA 51058

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the primary government of the City of Sutherland, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits, contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, and each major fund for the primary government of the City of Sutherland at June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2011 on our consideration of the City of Sutherland's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 14 through 16 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insight on that information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements for the primary government of the City of Sutherland. Other supplementary information, included in Schedules 1 through 2, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Winther, Stave & Co., LLP

April 29, 2011

BASIC FINANCIAL STATEMENTS

CITY OF SUTHERLAND
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

		Program Receipts		
		Charges for	Operating Grants, Contributions, and Restricted Interest	Capital Grants Contributions and Restricted Interest
	<u>Disbursements</u>	<u>Service</u>	<u>Interest</u>	<u>Interest</u>
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	\$ 198,016	\$ 23,598	\$ 1,000	
Public works	112,266	53,565	62,495	
Culture and recreation	44,334		2,435	
Community and economic development	35,163		5,000	
General government	88,361			
Debt service	<u>86,565</u>			
Total governmental activities	<u>564,705</u>	<u>77,163</u>	<u>70,930</u>	
Business-type activities:				
Water	58,706	71,063		
Sewer	<u>519,448</u>	<u>108,432</u>		
Total business-type activities	<u>578,154</u>	<u>179,495</u>		
TOTAL	<u>\$1,142,859</u>	<u>\$256,658</u>	<u>\$ 70,930</u>	<u>\$</u>
General Receipts:				
Property taxes levied for:				
General purposes				
Tax increment financing				
Local option sales tax				
Grants and contributions not restricted to specific purposes				
Unrestricted interest on investments				
Miscellaneous				
Bond proceeds				
Transfers				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets - beginning of year				
Cash basis net assets - end of year				
Cash basis net assets				
Restricted, expendable:				
Streets				
Urban renewal purpose				
Debt service				
Unrestricted				
Total cash basis net assets				

Exhibit A

Net (Disbursement) Receipts and Changes in
Cash Basis Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (173,418)		\$ (173,418)
3,794		3,794
(41,899)		(41,899)
(30,163)		(30,163)
(88,361)		(88,361)
<u>(86,565)</u>		<u>(86,565)</u>
<u>(416,612)</u>		<u>(416,612)</u>
	\$ 12,357	12,357
	<u>(411,016)</u>	<u>(411,016)</u>
	<u>(398,659)</u>	<u>(398,659)</u>
<u>(416,612)</u>	<u>(398,659)</u>	<u>(815,271)</u>
134,545		134,545
66,484		66,484
45,154		45,154
6,920		6,920
10,487		10,487
115,115		115,115
	355,521	355,521
<u>(55,958)</u>	<u>55,958</u>	
<u>322,747</u>	<u>411,479</u>	<u>734,226</u>
(93,865)	12,820	(81,045)
<u>610,400</u>	<u>35,284</u>	<u>645,684</u>
<u>\$ 516,535</u>	<u>\$ 48,104</u>	<u>\$ 564,639</u>
\$ 15,323		\$ 15,323
24,005		24,005
9,894		9,894
<u>467,313</u>	<u>\$ 48,104</u>	<u>515,417</u>
<u>\$ 516,535</u>	<u>\$ 48,104</u>	<u>\$ 564,639</u>

CITY OF SUTHERLAND
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Road Use Tax</u>	<u>Debt Service</u>	<u>Urban Renewal Tax Increment</u>	<u>Total</u>
RECEIPTS:					
Property tax	\$106,730		\$27,815		\$134,545
Tax increment financing				\$66,484	66,484
Other city tax	45,154				45,154
Licenses and permits	2,435				2,435
Use of money and property	10,487				10,487
Intergovernmental	6,920	\$62,495			69,415
Charges for service	77,163				77,163
Miscellaneous	121,115				121,115
TOTAL RECEIPTS	<u>370,004</u>	<u>62,495</u>	<u>27,815</u>	<u>66,484</u>	<u>526,798</u>
DISBURSEMENTS:					
Operating:					
Public safety	198,016				198,016
Public works	46,542	43,669		22,055	112,266
Culture and recreation	44,334				44,334
Community and economic development	35,163				35,163
General government	88,361				88,361
Debt service		18,565	28,000	40,000	86,565
TOTAL DISBURSEMENTS	<u>412,416</u>	<u>62,234</u>	<u>28,000</u>	<u>62,055</u>	<u>564,705</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(42,412)</u>	<u>261</u>	<u>(185)</u>	<u>4,429</u>	<u>(37,907)</u>
OTHER FINANCING USES:					
Operating transfers out	(55,958)				(55,958)
TOTAL OTHER FINANCING USES	<u>(55,958)</u>				<u>(55,958)</u>
NET CHANGE IN CASH BALANCES	(98,370)	261	(185)	4,429	(93,865)
CASH BALANCES - BEGINNING OF YEAR	<u>565,683</u>	<u>15,062</u>	<u>10,079</u>	<u>19,576</u>	<u>610,400</u>
CASH BALANCES - END OF YEAR	<u>\$467,313</u>	<u>\$15,323</u>	<u>\$ 9,894</u>	<u>\$24,005</u>	<u>\$516,535</u>
CASH BASIS FUND BALANCES:					
Reserved for debt service			\$ 9,894		\$ 9,894
Unreserved:					
General fund	\$467,313				467,313
Special revenue funds		\$15,323		\$24,005	39,328
TOTAL CASH BASIS FUND BALANCES	<u>\$467,313</u>	<u>\$15,323</u>	<u>\$ 9,894</u>	<u>\$24,005</u>	<u>\$516,535</u>

CITY OF SUTHERLAND
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	Enterprise		
	Water	Sewer	Total
OPERATING RECEIPTS:			
Charges for service	\$ 69,463	\$101,587	\$171,050
Miscellaneous	1,600	6,845	8,445
TOTAL OPERATING RECEIPTS	<u>71,063</u>	<u>108,432</u>	<u>179,495</u>
OPERATING DISBURSEMENTS:			
Business type activities	<u>58,706</u>	<u>23,326</u>	<u>82,032</u>
TOTAL OPERATING DISBURSEMENTS	<u>58,706</u>	<u>23,326</u>	<u>82,032</u>
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	<u>12,357</u>	<u>85,106</u>	<u>97,463</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):			
Bond proceeds		355,521	355,521
Debt service		(115,300)	(115,300)
Capital projects		<u>(380,822)</u>	<u>(380,822)</u>
NET NON-OPERATING RECEIPTS (DISBURSEMENTS)		<u>(140,601)</u>	<u>(140,601)</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	12,357	(55,495)	(43,138)
OPERATING TRANSFERS IN		<u>55,958</u>	<u>55,958</u>
NET CHANGE IN CASH BALANCES	12,357	463	12,820
CASH BALANCES - BEGINNING OF YEAR	<u>13,899</u>	<u>21,385</u>	<u>35,284</u>
CASH BALANCES - END OF YEAR	<u>\$ 26,256</u>	<u>\$ 21,848</u>	<u>\$ 48,104</u>
CASH BASIS FUND BALANCES:			
Unreserved	<u>\$ 26,256</u>	<u>\$ 21,848</u>	<u>\$ 48,104</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 26,256</u>	<u>\$ 21,848</u>	<u>\$ 48,104</u>

NOTES TO FINANCIAL STATEMENTS

CITY OF SUTHERLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Sutherland is a political subdivision of the State of Iowa located in O'Brien County and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Sutherland has included all funds, organizations, agencies, boards, commissions, and authorities. These financial statements present the primary government of the City of Sutherland but do not include component units or any other organizations, if any, for which it would be financially accountable.

The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units which meet the Government Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in a jointly governed organization that provides goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Northwest Iowa Area Solid Waste Agency.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets - Cash Basis reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement.

Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets - Cash Basis presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets - Cash Basis demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. There are no governmental funds reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's sanitary sewer.

C. Measurement Focus and Basis of Accounting

The City of Sutherland maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public works, general government, debt service function and business-type activities functions.

E. Subsequent Events

Management has evaluated subsequent events through the date of the audit report, which is the date the financial statements were available to be issued.

2. CASH AND POOLED INVESTMENTS

The City's deposits at June 30, 2010 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts.

Interest Rate Risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Credit Risk - The City did not have investments subject to risk categorization at June 30, 2010.

3. GENERAL OBLIGATION AND REVENUE NOTES PAYABLE

Annual debt service requirements to maturity for general obligation and revenue notes are as follows:

Year Ending June 30.	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 74,085	\$ 13,756	\$ 27,000	\$ 35,774	\$101,085	\$ 49,530
2012	72,460	10,402	27,000	41,250	99,460	51,652
2013	60,594	7,406	28,000	40,440	88,594	47,846
2014	61,270	4,645	29,000	39,600	90,270	44,245
2015	8,507	842	30,000	38,730	38,507	39,572
2016-2020			164,000	179,550	164,000	179,550
2021-2025			233,000	153,450	233,000	153,450
2026-2027			66,220	50,460	66,220	50,460
Total	<u>\$276,916</u>	<u>\$ 37,051</u>	<u>\$604,220</u>	<u>\$579,254</u>	<u>\$881,136</u>	<u>\$616,305</u>

The Code of Iowa requires principal and interest on general obligation bonds and notes be paid from the Debt Service Fund unless payable from a special revenue fund as noted below.

A general obligation note issued for street improvements is being paid from the Road Use Tax Fund. The note was paid in full during 2010.

Certain general obligation bonds and notes were issued for the purpose of defraying a portion of the costs of carrying out projects within the urban renewal district of the City. The bonds and notes are being paid from the tax increment financing (TIF) receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100 percent of the debt service requirements over the life of the bonds. The proceeds of bonds being repaid from TIF receipts shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. Total principal and interest remaining on the bonds expected to be paid from TIF receipts is \$157,905, payable through June 2014. For the current year, principal and interest paid and total TIF receipts were \$40,000 and \$66,484, respectively.

Revenue Notes - The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$600,000 and \$124,220 of sewer revenue notes issued in 2005 and 2010, respectively. The City anticipates future advances from the \$922,000 sewer revenue capital loan note issued in January 2010. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. Current outstanding balances and future anticipated advances on the notes are payable solely from sewer customer net receipts and are payable through 2030. Annual principal and interest payments on the note are expected to require more than 54 percent of net receipts. The total principal and interest remaining to be paid on the note is \$1,183,474. For the current year, principal and interest paid and total customer net receipts were \$41,413 and \$85,106, respectively.

The City has also received cumulative advances of \$238,801 through June 30, 2010 from a \$391,000 forgivable sewer revenue capital loan note issued in January 2010. Proceeds from the note defray costs related to sewer system improvements. The note is forgivable upon receiving certified approval of completion of the project.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders retain a lien on the future earnings of the fund.
- b. Sufficient balances are maintained in a separate sewer revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- c. User rates shall be established which produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

During the year ended June 30, 2010, the City failed to comply with a certain revenue note provision. See item II-H-10 on page 25 for additional information.

4. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2010 was \$9,863, equal to the required contribution for the year.

5. COMPENSATED ABSENCES

City employees earn vacation benefits on their employee hire anniversary. Employees are not allowed to carry vacation hours forward to future periods, therefore accumulated vacation benefits are not considered material and are not presented as a part of these financial statements.

As sick leave is not payable upon termination, retirement, or death, the minimum accumulated sick leave is not presented as part of these financial statements.

6. RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials totaling \$26,509 during the year ended June 30, 2010.

7. RISK MANAGEMENT

The City of Sutherland is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

8. INTERFUND TRANSFER

The detail of the interfund transfer for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	
Sewer Fund	General Fund	<u>\$ 55,958</u>

9. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

The City sponsors a single-employer healthcare plan which provides medical/ prescription drug benefits for all active and retired employees and their eligible dependents. There are two active and no retired members in the plan. Eligible retirees must be age 55 or older and meet certain other requirements at retirement. Benefits terminate upon attaining Medicare eligibility.

The medical/prescription drug benefits are provided through a fully-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit subsidy. Retiree premiums are fully offset by monthly contributions.

Funding Policy

The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis.

10. LITIGATION

The City may become party to routine legal proceedings and litigation arising in the normal course of governmental operations. These legal proceedings typically are not expected to have a material adverse impact on the City's financial condition.

11. COMMITMENTS

At June 30, 2010, the City has entered into a construction contract totaling approximately \$823,195, of which \$173,391 was paid on the project at June 30, 2010. Project costs will be paid as work on the project progresses.

12. SUBSEQUENT EVENTS

The City procured a note for \$50,000 to purchase the residence of a former employee as settlement in a legal dispute.

The City received advances of \$729,983 on the Series 2009A and Series 2009B notes.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SUTHERLAND
BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2010

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	<u>Total</u>
RECEIPTS:			
Property tax	\$134,545		\$ 134,545
Tax increment financing	66,484		66,484
Other city tax	45,154		45,154
Licenses and permits	2,435		2,435
Use of money and property	10,487		10,487
Intergovernmental	69,415		69,415
Charges for service	77,163	\$171,050	248,213
Miscellaneous	<u>121,115</u>	<u>8,445</u>	<u>129,560</u>
TOTAL RECEIPTS	<u>526,798</u>	<u>179,495</u>	<u>706,293</u>
DISBURSEMENTS:			
Public safety	198,016		198,016
Public works	112,266		112,266
Culture and recreation	44,334		44,334
Community and economic development	35,163		35,163
General government	88,361		88,361
Debt service	86,565		86,565
Business-type activities		<u>578,154</u>	<u>578,154</u>
TOTAL DISBURSEMENTS	<u>564,705</u>	<u>578,154</u>	<u>1,142,859</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(37,907)	(398,659)	(436,566)
OTHER FINANCING SOURCES (USES) - NET	<u>(55,958)</u>	<u>411,479</u>	<u>355,521</u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER DISBURSEMENTS AND OTHER FINANCING USES	(93,865)	12,820	(81,045)
BALANCES - BEGINNING OF YEAR	<u>610,400</u>	<u>35,284</u>	<u>645,684</u>
BALANCES - END OF YEAR	<u>\$516,535</u>	<u>\$ 48,104</u>	<u>\$ 564,639</u>

<u>Budgeted Amounts</u>		<u>Final to</u>
<u>Original</u>	<u>Final</u>	<u>Total</u>
		<u>Variance</u>
\$ 129,402	\$ 129,402	\$ 5,143
70,809	70,809	(4,325)
68,303	68,303	(23,149)
1,280	1,280	1,155
12,700	12,700	(2,213)
64,500	96,750	(27,335)
242,000	242,000	6,213
	74,600	54,960
<u>588,994</u>	<u>695,844</u>	<u>10,449</u>
87,500	213,500	15,484
109,000	109,000	(3,266)
25,370	47,370	3,036
79,609	104,609	69,446
87,514	87,514	(847)
28,000	28,000	(58,565)
<u>155,000</u>	<u>155,000</u>	<u>(423,154)</u>
<u>571,993</u>	<u>744,993</u>	<u>(397,866)</u>
17,001	(49,149)	(387,417)
		<u>355,521</u>
17,001	(49,149)	<u>\$ (31,896)</u>
<u>737,410</u>	<u>737,410</u>	
<u>\$ 754,411</u>	<u>\$ 688,261</u>	

CITY OF SUTHERLAND
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$173,000.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the general government, public works, debt service functions, and business-type activities functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF SUTHERLAND
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2010

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Capital Notes:			
Street improvement	May 22, 1997	5.75%	\$ 180,000
TIF Street Project	November 6, 2007	4.25%	249,591
Culvert and Police Car	August 1, 2007	4.88%	169,000
Lagoon Land Purchase	December 22, 2009	4.50%	37,500
Lagoon Land Purchase	December 22, 2009	4.50%	55,000
Total			
Revenue Notes:			
Sewer - Series 2005	October 4, 2005	3.00%	600,000
Sewer - Series 2009 A	January 13, 2010	3.00%	922,000 *
Total revenue notes to be paid			
Sewer - Series 2009 B (forgivable)	January 13, 2010	3.00%	391,000 *
Total			

* Final \$949,979 of notes were available to be drawn down after June 30, 2010.

Schedule 1

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
\$ 17,573		\$ (17,573)		\$ 752
170,780		(32,030)	\$138,750	7,970
126,918		(21,939)	104,979	6,061
	\$ 37,500	(4,313)	33,187	647
<u> </u>	<u>55,000</u>	<u>(55,000)</u>	<u> </u>	<u>976</u>
<u>\$315,271</u>	<u>\$ 92,500</u>	<u>\$(130,855)</u>	<u>\$276,916</u>	<u>\$ 16,406</u>
\$505,000		\$ (25,000)	\$480,000	\$ 15,150
<u>100,000</u>	<u>\$ 24,220</u>	<u> </u>	<u>124,220</u>	<u>1,426</u>
605,000	24,220	(25,000)	604,220	16,576
<u> </u>	<u>238,801</u>	<u> </u>	<u>238,801</u>	<u> </u>
<u>\$605,000</u>	<u>\$263,021</u>	<u>\$ (25,000)</u>	<u>\$843,021</u>	<u>\$ 16,576</u>

CITY OF SUTHERLAND
NOTE MATURITIES
JUNE 30, 2010

General Obligation Notes							
Year	TIF Street Project Issued 5-22-1997		Culvert & Police Car Issued 8-1-2007		Lagoon Land Purchase Issued 10-22-2009		Total
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
June 30,							
2011	4.25%	\$ 33,026	4.88%	\$ 22,403	4.50%	\$ 18,656	\$ 74,085
2012	4.25	34,430	4.88	23,499	4.50	14,531	72,460
2013	4.25	35,923	4.88	24,671			60,594
2014	4.25	35,371	4.88	25,899			61,270
2015			4.88	8,507			8,507
2016							
2017							
2018							
2019							
2020							
2021							
2022							
2023							
2024							
2025							
TOTALS		<u>\$138,750</u>		<u>\$104,979</u>		<u>\$ 33,187</u>	<u>\$276,916</u>

Revenue Notes					
Year	Sewer - Series 2005		Sewer - Series 2009A		Total
	Issued 10-4-2005		Issued 1-13-2010		
June 30,	Interest Rate	Amount	Interest Rate	Amount	
2011	3.00%	\$ 26,000	3.00%	\$ 1,000	\$ 27,000
2012	3.00	26,000	3.00	1,000	27,000
2013	3.00	27,000	3.00	1,000	28,000
2014	3.00	28,000	3.00	1,000	29,000
2015	3.00	29,000	3.00	1,000	30,000
2016	3.00	30,000	3.00	1,000	31,000
2017	3.00	31,000	3.00	1,000	32,000
2018	3.00	32,000	3.00	1,000	33,000
2019	3.00	33,000	3.00	1,000	34,000
2020	3.00	33,000	3.00	1,000	34,000
2021	3.00	35,000	3.00	1,000	36,000
2022	3.00	36,000	3.00	1,000	37,000
2023	3.00	37,000	3.00	1,000	38,000
2024	3.00	38,000	3.00	1,000	39,000
2025	3.00	39,000	3.00	44,000	83,000
2026			3.00	46,000	46,000
2027			3.00	20,220	20,220
TOTALS		<u>\$480,000</u>		<u>\$124,220</u>	<u>\$604,220</u>

See Accompanying Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council
City of Sutherland
Sutherland, IA 51058

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the primary government of the City of Sutherland, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated April 29, 2011. Except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009, our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Sutherland's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing our opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a certain deficiency in internal control over financial reporting we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as Item I-A-10 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sutherland's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sutherland and other parties to whom the City of Sutherland may report, including federal awarding agencies and pass-through agencies, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Sutherland during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Winther, Stare & Co., LLP

April 29, 2011

CITY OF SUTHERLAND
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

Part I: Findings Related to the Financial Statements

Internal Control Deficiency:

I-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted employees were performing incompatible functions.

Recommendation - We realize it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, we recommend the Council maintain their diligence in the review of the financial records.

Response - We will continue our review.

Conclusion - Response accepted.

Instances of Non-Compliance:

No matters were noted.

CITY OF SUTHERLAND
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2010

Part II: Other Findings Related to Statutory Reporting

- II-A-10 Certified Budget - Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the public works, general government, debt service functions and business type activities functions. In addition, disbursements in public safety exceeded the amounts budgeted prior to the budget amendment. Chapter 384.20 of the Code of Iowa states, in part, that "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- II-B-10 Questionable Disbursements - Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
The Menagerie	Flower arrangements for funeral	\$ 25

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation - The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

- II-C-10 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or City employees were noted.

CITY OF SUTHERLAND
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2010

Part II: Other Findings Related to Statutory Reporting - Continued

- II-D-10 Business Transactions - Business transactions between the City and City officials or City employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mills Construction, owed by Mayor's family	Construction projects	\$26,484
The Menagerie, owned by Council Member's spouse	Flowers	\$ 25

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with The Menagerie does not appear to represent a conflict of interest since the total transaction was less than \$1,500 during the fiscal year.

Recommendation - The transactions exceeding \$1,500 may represent a conflict of interest. The City should consult legal counsel to determine the disposition of these matters.

Response - The City Attorney will be asked to comment on these transactions.

Conclusion - Response accepted.

- II-E-10 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

- II-F-10 Council Minutes - No transactions were found that we believe should have been approved in the council minutes but were not.

- II-G-10 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the City's investment policy.

CITY OF SUTHERLAND
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2010

Part II: Other Findings Related to Statutory Reporting - Continued

- II-H-10 Revenue Note - The City has not complied with a sewer revenue note resolution. The City has not established the sewer bond and interest sinking fund required by bond resolutions.

Recommendation - The City should make transfers to the sewer bond and interest sinking funds necessary to bring the balance into compliance with bond resolution requirements.

Response - We will make the necessary transfers to the bond and interest sinking fund to bring it into compliance.

Conclusion - Response accepted.

- II-I-10 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amount stated in the resolution was exceeded during the year ended June 30, 2010.

Recommendation - We recommend amounts deposited in financial institutions be regularly reviewed for compliance with the depository resolution.

Response - The maximum deposit amount was temporarily exceeded due to the deposit of loan proceeds. We will regularly review financial institution account balances for compliance with the depository resolution.

Conclusion - Response accepted.

- II-J-10 Payment of General Obligation Notes - The City is disbursing funds directly from the Road Use Fund toward repayment of the street improvement loan without utilizing the Debt Service Fund.

Recommendation - The City should transfer funds to the Debt Service Fund to make the loan repayment.

Response - We will begin transferring to the Debt Service Fund and then make loan repayment disbursements from the Debt Service Fund.

Conclusion - Response accepted.